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A Plan for Continued Growth of the Boston Economy

BOSTON REDEVELOPMENT AUTHORITY

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An address delivered by Robert T. Kenney, director of the Boston Redevelopment Authority, at the Luncheon Seminar Series of the Federal Reserve Bank of Boston, June 16, 1976.

Boston has experienced a remarkable period of growth over the past 15 years.

- Over half the office space downtown has been built in the last 15 years and over 50 percent of that new space has been built in the past five years.
- Almost half the hotel rooms in the city have been built since the early 1960's.
- The Waterfront is being transformed.
- Scollay Square has been supplanted by the Government Center.
- Railyards and rooming houses in the Back Bay have been replaced by the Prudential Center and the Christian Science Center.
- In all, approximately $12 billion in capital investment has been made in this city since 1960, with $4.7 billion of that amount carried out since 1970.

Given this measure of progress, Boston should be filled with a spirit of optimism, the kind of confidence about the future that prevails in Houston and all those other Sunbelt cities that are supposed to be the wave of the future.

Instead, there is scepticism in the air. There are moderate types who are concerned that our rate of growth is slowing down. And there are others, more outspoken, who talk about the anti-business climate in Massachusetts and make predictions filled with gloom, doom and disaster.

Both camps have some justification for voicing their concerns. But what bothers me is that both camps seem to pass over the progress of the past 15 years, as if it's something over and done with, that has nothing to do with our economic future. Moreover, both camps fail to see that the remarkable achievements of the recent past can be a launching pad for another period of growth.

Today, I'd like to focus on just what is the realistic potential for growth in Boston over the next 5 to 10 years, and on how we should go about achieving that growth.

I happen to take a more optimistic view of our fu-

ture than the gloom-doom crowd, but I am well aware why there is some concern about whether we have leveled off. In short, I do not confuse optimism with naivete.

Somehow, however, many members of the business community are all too willing to accept the prevalent attitude that the dynamics of growth have shifted away from the Northeast to the Sunbelt. Decline in the Northeast — we are told — is inevitable. Growth in the Sunbelt is automatic.

I am not going to dispute the obvious facts about growth in the Sunbelt.

But at the same time, I don't think we have to write off cities located in the "snow belt." Houston has experienced a fantastic amount of growth in recent years. But Boston hasn't exactly declined as Houston has expanded.

Just to keep our perception clouded by facts, let me cite the rate of growth in Boston and how it stacks up against some of these other cities.

Since 1967, metropolitan Boston's population and personal income has grown at a greater rate than Los Angeles, the largest city in the Sunbelt. (In fact, Los Angeles accounts for 37 percent of the Sunbelt population.) Employment in construction in Boston has grown by 19 percent since that time. In Los Angeles, it grew by 13 percent.

But if we are going to marvel at the rate of growth in the Sunbelt, let's compare Boston to the Sunbelt in terms of the fastest growing segment of the national economy — service activities.

Since 1967, service activity employment has expanded in all the nation's large metropolitan areas, rising from 31 percent of total employment in 1967, to 33 percent in 1973.

The City of Boston led the trend, with its service activity share of employment going from 42 percent in 1967 to 47 percent in 1973. Boston leads the nation's cities with the broadest services base at 47 percent of total employment.

This is only the private services sector. Government employment is excluded, which should answer those who say service growth has come from ballooning public payrolls.

Our reliance on service activities is the key reason

why the future holds bright promise for Boston. The U.S. Department of Labor predicts an average growth rate for services of 2½ times that of manufacturing in the years 1972-1985. Again, we're not including public employment.

Boston is not Houston — but the basis for continued growth exists. We have more of the fastest growing segment of the national economy.

Moreover, the City of Boston's employment in service activities is by no means concentrated in fast-food service and other low-grade jobs. We're not selling hamburgers to each other, as some people have said. Of more than one-quarter of a million jobs in private service activities in Boston in 1973, only 34,000 were low-grade jobs. The remaining 213,000 were in banking, insurance, medical services, higher education, real estate, business services, communication, transportation and so on.

But even more important, Boston has become a large exporter of services. Forty percent of the service activity generated in the Boston metropolitan area is exported. We export proportionately more of the services generated here than any other large metropolitan area. For instance, Los Angeles exports 29 percent and San Francisco, 15 percent. Houston exports only 7 percent of its services.

Yes, the Sunbelt cities of the South and West are growing rapidly, and in comparison with the nation's large cities, their production share has risen from one-tenth in 1929 to one-third at present.

But the older industrial and broad-based service cities are still twice as important in terms of jobs, population, production and markets, and they are still experiencing growth, although at a slower rate.

Further, those news stories on the Sunbelt tend to ignore the potential role of the older cities in the national economic recovery. Or as an economist put it in a *Business Week* article on the Sunbelt, "It's difficult to picture the economy getting anywhere near full employment without New York and the other industrial states growing more than they did during 1969-73, even before the recession hit them."

The fascination with this Sunbelt growth has also

prevented a lot of people from seeing a trend of possibly greater significance: the declining rate in suburbanization of population and jobs.

I have the distinct feeling that the big story of the late 1970's and 1980's may not be growth in the Sunbelt. Rather, it may turn out to be the decline of suburbia.

The state census completed last fall revealed that for the first time the City of Boston actually experienced a greater rate of population growth than the suburban communities in Greater Boston.

The biggest thing the suburbs had going for them at one time was cheap land. Well, land in the suburbs is no longer as cheap as it once was and that means their big advantage is now becoming a disadvantage.

Also, there are stricter zoning regulations emerging in the suburbs and that is bound to restrict growth.

There is also the simple matter of saturation. At one time, a month didn't go by without announcement of a new suburban shopping center development. That isn't happening anymore. There are people who will tell you that there are too many shopping centers out there now.

And then there is the cost of energy. There is nothing about the suburbs — whether as a place to live or a place to do business — that is efficient from an energy point of view. Again, the economic advantage of suburban locations is being eroded by the rise in energy prices.

This is not just core-city public relations. Numerous Urban Land Institute studies have uncovered this trend.

Looking at the current facts about growth in Boston — and taking into consideration the perception of the city by outsiders — I think there are sufficient grounds for cautious optimism.

Indeed, there is every indication that we must begin to plan for a new era of growth. As we look down the road toward the next 10 years, we must plan for growth which capitalizes on our strengths and corrects our weaknesses.

The same spirit of optimism that was prevalent in the days when "the New Boston" was a byword is

needed once more today

We must chart an economic development program for the next ten years that focuses on our service-based economy while not neglecting manufacturing. We must continue our programs to improve the physical appearance and livability of Boston. We must strengthen our economic incentives to encourage service activity, and finally, we must promote the city.

Our 10-year economic development program should consist of the following 10 points:

1. *We must expand our convention industry by strongly encouraging the construction of at least 2500 additional hotel rooms and possibly another public exhibition hall.*

   There is simply no reason why Kansas City and Detroit — but not Boston — should rank with Atlanta, San Francisco, New York and Chicago as convention centers. Boston has much more to offer, but those cities have the hotel rooms. All the major hotel chains are eyeing Boston as a place to expand. Some operators of marginal hotels in Boston say we have enough rooms. They are justifiably protecting their self-interest, but they lose sight of the fact that with additional hotel chains operating here there would be an expansion of convention business that would benefit all hotels. The market can be expanded but we need new facilities.

   Why haven't more hotel rooms been built? A major problem is financing. There must be a public-private partnership to resolve this problem.

2. *We must increase our supply of downtown residential units, offering tax incentives and public improvements to encourage the conversion of Class C office space into housing.*

   There is every reason to think that many of the older commercial buildings downtown can be converted to residential use. We have shown on the Waterfront that the conversion of older buildings to new housing not only adds to the color, vitality and charm of Boston, but also attracts new residents to the city.

At present the BRA is working on a study, funded by the National Endowment for the Arts, to investigate the feasibility of converting these older — and in many cases underutilized — office buildings to apartments and condominiums. One aspect of that study will deal with the possibility of providing tax abatements to encourage this kind of recycling of older buildings. Drastically simplified rent control procedures will also be needed to foster this reuse. The demand for apartments is there. The conversion of an office building on Chauncy Street to housing has clearly showed that.

3. *Point number 3 in our development program is the most difficult, and yet the most important. We must make our real estate tax system more rational so that it is not a hindrance to investment.*

   Our reliance on the property tax is burdensome and should be changed. We should not have to rely on 121A agreements, but if we want new development we must continue to use them until we get a system that is more easily predictable for investors.
4. *The program of public improvements now underway — improving the appearance of downtown with mini-parks and trees — must be continued along with the program of improving our rapid transit system.*
5. *Our educational system should encourage our high school students towards jobs in the service industries, such as computers, clerical, retailing and hotel administration, so that there is a plentiful supply of well-trained labor.*
6. *The discriminatory taxes on the investments of home-based insurance companies which provide 30,000 jobs should be eliminated.*
7. *With the changing priorities of public funding, new funding methods to facilitate development must be found. Tax increment financing and incentive zoning are the two most promising.*

Under tax increment financing, which is available in most progressive cities, a portion of the additional tax revenues the city will receive

from new development is borrowed in anticipation to finance the initial improvements. It is a self-financing renewal program. A proposed bill has been before the legislature for 3 years to accomplish this. It needs your support.

8. *Vacant land in areas of Boston where there is significant housing abandonment should be held by the City, that is, land banked for five years or so until sufficiently large tracts of land are available for development.* In the future, this land will be cheaper by comparison to suburban land and will fuel the regeneration process that is bound to take place with the slower rate of growth in the suburbs.

   In other, less troubled neighborhoods we must foster the demand for housing to prevent its detioration. It's amazing how few people realize the housing bargains available in the stronger sections of Dorchester, to cite only one example.

9. *Rebuilding of our downtown retail district must be given top priority.* Pedestrian improvements on Washington Street and the building of Lafayette Place are the most important. To that end, the business community and elected officials must get together and lobby the Federal government to ensure that the GSA builds its next Federal office building, planned within the next five years, in the Jordan Marsh / Lafayette Place development.

   Other public and private development efforts should be channeled into the other three major development projects on the drawing boards, namely, the Charlestown Navy Yard, South Station and Park Plaza. These four projects together will require our economic resources for quite a period of time.

10. *Finally, point number 10 in our economic development program should be the establishment by the private business community of an on-going promotional campaign to sell Boston.* I emphasize the private sector because this campaign should not take on the color of political press-agentry and also because the private sector is more competent to fulfill this task.

The public sector should be called upon to help but the leadership should be private.

The BRA is publishing "Boston, A Special City," which gives a comprehensive picture of the local economy and its advantages. The document is aimed at attracting new business to Boston. At this time, it is one of the few documents which contains information that would be needed by a firm considering relocating in Boston.

But the business community and City must work on a program that goes well beyond that.

At this point, very little is being done to sell Boston. Atlanta, of course, carries out an ad campaign. So does Chicago. We must ask ourselves why we think we don't have to promote Boston. I think the Convention Bureau brochure says it all with the phrase, "Famous isn't enough."

While I'm on this point, I want to suggest that any promotional campaign begin with an education program within the city. For some reason, there are few people harder on Boston that Bostonians themselves. How many businessmen from Boston, when in another city, go out of their way to promote Boston? I'm not talking about mindless boosterism. Rather, I'm talking about businessmen who, when confronted with questions about Boston's racial problems, take the time to explain that some of Boston's day-to-day problems aside, it is a remarkably healthy and strong city.

In Boston, we tend to downgrade our city, but outside Boston most people are quite impressed with what we have done and are going.

Several weeks ago, for example, the *Wall Street Journal* wrote about growth in the Sunbelt. In that article the comment was made that Boston and San Francisco appeared to be exceptions to this trend. Both cities, the article pointed out, were special. They could trade on their charm. They are, one urbanologist observed, our Copenhagens.

About the same time, *U.S. News and World Report* weighed in with a rather cheerless 16-page section entitled "Are All Big Cities Doomed?" They found little hope for the most part, but they ended by citing four cities which have maintained growth and prosperity, four cities of promise, and they

offered capsule accounts of what those cities have done and are doing as proof that some cities are on the way up.

Not surprisingly, Boston was one of those four cities.

Physical renewal, the article pointed out, has made Boston a pleasant place to live. It is an attractive city, but it is also a place that has maintained its role as the center of the regional economy. They also felt that the growth of the city's population and the increase in service-oriented jobs bodes well for the future.

But most of all, they found that in the face of all the problems afflicting it, problems which have virtually destroyed other cities, Boston has a special quality, something which makes it seem as if it can surmount those problems.

A few weeks ago we had dedication ceremonies for the new Waterfront Park, probably the most dramatic public improvement to take place in the city since the construction of City Hall and City Hall Plaza. At the ceremony, we unveiled a plaque which acknowledges Frank Christian's contribution to the Waterfront renewal effort.

A few days after the dedication I received a note from Michael Christian, expressing the thanks of the Christian family for honoring his father. A comment he made in that note sums up, I think, some of the things I have discussed here today. He said, "If dedicating the park to my father could do anything beyond pleasing his family and those who worked on the park with him, it would be great if it caused a few more businessmen to throw in their lot with the resolution of the city's problems and the pursuit of its great opportunities."

At one time, business leaders like Frank Christian did not hesitate to throw in their lot with Boston. Let's hope we see a rebirth of that attitude.